



Janet Napolitano, Governor

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ARIZONA DEPARTMENT OF REVENUE MISSION STATEMENT

The purpose of the Arizona Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

WE'RE ON THE WEB!

The Arizona TaxNews can be viewed on our Internet website:

www.revenue.state.az.us

ARIZONA WITHHOLDING RATES TO CHANGE

Senate Bill 1415 amended Arizona Revised Statutes (A.R.S) § 43-301 to change the Arizona withholding percentage options. These changes apply to withholding from compensation, pensions and annuities paid from and after **December 31, 2004**. For employees earning less than \$15,000, the lowest rate remains at 10%.

Old Rate	New Rate
10%	10% (only available to employees earning less than \$15,000)
18.2%	19%
21.3%	23%
23.3%	25%
29.4%	31%
34.4%	37%

PHOENIX TAX PREPARER SENTENCED FOR SCAM AGAINST AFRICAN REFUGEES

Muhammad Hamidullah Shabazz (aka Wilburn Kenny Harris), age 54, was sentenced today in Maricopa Superior Court to six months in jail for theft, fraudulent schemes, and preparing fraudulent state income tax returns for 2002. His jail sentence is to be followed by 3 years' probation during which time he is prohibited from preparing tax returns.

Shabazz operated a Phoenix-based tax preparation business known as Muhammad Shabazz Tax Accounting and prepared over 250 returns for 2002. Many of Shabazz' clients were West African refugees. Shabazz prepared false returns for them by creating non-existent businesses with large losses, and listing false dependents as exemptions, among other items.

Because these West African refugees are new to this country and not familiar with our tax laws, Shabazz was able to take advantage of them and create these false returns, which generated larger refunds. Shabazz then charged substantially higher fees based on these refunds, and also kept some of the refunds to line his own pockets. Shabazz pled guilty in April to one count of theft, one count of fraudulent schemes and practices, and one count of fraudulently preparing tax returns. Shabazz has also been ordered to pay restitution of over \$14,000 to the Department of Revenue. "The Department of Revenue is stepping up efforts to aggressively pursue preparers of fraudulent business and individual tax returns," said Revenue Director Elliott

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*****REMINDER*****

FOR NON-EFT TPT FILERS

**To avoid a delinquency, postmark your
June 2004 TPT return no later than
July 26, 2004 or deliver to DOR no later than
July 29, 2004.**

The Tax Facts—Summary of General Fund
Revenues & Individual Income Tax Receipts—
are available on the department's website,
www.revenue.state.az.us

E-Mail Your Questions

If you have a question that you cannot find the
answer to, our Technical Assistance personnel may
prove useful to you. We will gladly respond to any
e-mail technical tax inquiry. All inquiries will be
responded to within two working days.

E-mail your question to:

TaxpayerAssistance@revenue.state.az.us

In the interest of maintaining confidentiality, DOR
cannot respond to inquiries that include a Social
Security number, FEIN, TPT or W/H number, or
other specific taxpayer identifiers.

Department of Revenue Telephone Numbers & Web addresses

Individual & Corporate Income Tax

..... (602) 255-3381

Toll-free from

area codes 520 and 928..... (800) 352-4090

Transaction Privilege, Use, Withholding Tax, Licensing

..... (602) 255-2060

Toll-free from

area codes 520 and 928..... (800) 843-7196

Hearing Impaired TDD User .. (602) 542-4021

Toll-free from

area codes 520 and 928..... (800) 397-0256

To order forms by phone (602) 542-4260

Forms by fax (602) 542-3756

**Forms and instructions are also available
on our website at** www.revenue.state.az.us

**Businesses can now register, file and pay
online at** www.AZTaxes.gov

TAX CALENDAR

JULY 2004

Due Date		For Period Ending
5	Federal holiday observed—Independence Day All offices closed	
15	Income Tax Returns:	3/31/04
	Form 120: Corporation	
	Form 140: Individual	
	Form 141: Fiduciary	
	Form 165: Partnership	
15	Form 120: Corporation with Automatic Extension	9/30/03
15	Form 120S: S Corporation	4/30/04
15	Form 99: Exempt Organization Annual Information Return	
	Form 99T: Exempt Organization	3/31/04
15	Form 120ES: Estimated Tax Payment, Corporation	
	First Installment	3/31/05
	Second Installment	1/31/05
	Third Installment	10/31/04
	Fourth Installment	7/31/04
20	Form TPT-1: Transaction Privilege Tax: June Monthly Filers and Quarterly Filers	6/30/04
20	Bingo: Financial Reports	6/30/04
20	Luxury Tax: Various Forms	6/30/04
26	EFT Form TPT-1 and Payment: Transaction Privilege Tax: June Monthly Filers	6/30/04
August 2	Form A1-QRT—Withholding Tax	6/30/04

Withholding Tax Payment Information:

If the average amount of Arizona income taxes withheld in the
preceding four calendar quarters **exceeds** \$1,500 the employer must
make its Arizona withholding payments to the Department of
Revenue at the same time as the employer is required to make
federal withholding deposits.

If the average amount of Arizona income taxes withheld in the
preceding four calendar quarters **does not exceed** \$1,500 the
employer must make its Arizona withholding payments to the
department on a quarterly basis.

The *Arizona TaxNews* is a publication of the Arizona Department
of Revenue. Information contained herein is of a general nature
and is not designed to address complex issues in detail.
Taxpayers requiring information concerning a specific tax matter
should contact the appropriate office. This newsletter is available
in an alternative format upon request. Subscription information
may be obtained from the Publications Unit at 602-716-6797 or
toll free from area codes 520 & 928, 1-877-863-0655.

FAQs CONCERNING IRC CONFORMITY FOR 2004

Has Arizona conformed to the federal bonus depreciation allowed under the internal revenue code?

No. When computing Arizona taxable income, ARS § 43-1021.27 requires an add-back of the depreciation claimed on the federal return and allows a subtraction under ARS § 43-1022.28 for depreciation allowable under the internal revenue code computed as if the taxpayer had not elected bonus depreciation.

If a taxpayer has depreciation expense on Schedule A (itemized deductions) is the taxpayer required to add back that amount?

No. The adjustments in ARS §§ 43-1021.27 and 43-1022.28 apply only to depreciation expense included in Arizona gross income (federal adjusted gross income).

If a taxpayer has already filed a 2003 tax return that does not conform to these changes must an amended return be filed?

An amended return must be filed to reflect these changes if it makes a difference in Arizona taxable income.

Does ARS § 43-1022.29 allow a subtraction to reduce the gain to reflect the difference in basis of property for which bonus depreciation has been claimed at the time the asset is sold?

Yes. ARS § 43-1022.29 allows a subtraction in the year of the sale to claim the additional depreciation allowable under the internal revenue code for prior years if the taxpayer had not previously taken that subtraction.

Does the retroactive amendment of ARS § 43-1022.29 allow a subtraction to reduce the gain to reflect the difference in basis of property for which bonus depreciation has been claimed if the property has been sold in prior years?

Yes. The adjustment for the basis difference in case of disposition is to be handled in one of two ways at the election of the taxpayer:

- 1) Recognize the entire cumulative effect of the basis differences in case of disposition on the tax return for the first tax year ending on or after December 31, 2003 (The 2003 return). To qualify for this election, all returns prepared pursuant to the prior law must be filed by the due dates for those returns, including extensions, or April 15, 2004, whichever is later.

– or –

- 2) Amend each of the affected returns individually.

Does Arizona allow a retroactive adjustment to reflect the change in depreciation allowable for luxury autos?

Yes. The retroactive recognition of the change in depreciation methods is to be handled in one of two ways at the election of the taxpayer:

- 1) Recognize the entire cumulative effect of the retroactive change of depreciation methods on the tax return for the first tax year ending on or after December 31, 2003 (The 2003 return). To qualify for this election, all returns prepared pursuant to the prior law must be filed by the due dates for those returns, including extensions, or April 15, 2004, whichever is later.

– or –

- 2) Amend each of the affected returns individually.

If a taxpayer has already filed a 2003 tax return and wants to elect to recognize the cumulative effect of retroactive changes can an amended return be filed?

Yes. An amended 2003 tax return can be filed. The cumulative adjustment can only be claimed on the 2003 tax return.

Does the amount of federal depreciation that is required to be added back include Sec. 179 expenses deducted on the federal return?

No. Only actual depreciation expense claimed on the federal return is required to be added back. If depreciation is claimed on a property, a portion of which has been expensed under Sec. 179, the depreciation on that portion of the property that was not expensed is required to be added back.

Has Arizona conformed to the federal deduction of Sec. 179 expense allowed by the Jobs and Growth Tax Relief Reconciliation Act?

No. Arizona requires the amount of Sec. 179 expense deducted on the federal return in excess of \$25,000 to be added back under ARS § 43-1021.28 and allows the amount added back to be subtracted in equal installments over a five year period under ARS § 43-1022.30.

If Sec. 179 property is sold before the taxpayer has subtracted all five installments of the amount in excess of \$25,000 that was added back, can the taxpayer continue to subtract those installments?

Yes. The statute provides for the subtraction over five years and makes no provision to accelerate or disallow the subtractions if the property is sold.

Can a taxpayer with 3 year property choose not to claim any Sec. 179 expense for Arizona purposes

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IRS WARNS OF SCHEME TO STEAL IDENTITY AND FINANCIAL DATA

IR-2004-75, June 1, 2004

WASHINGTON - The Internal Revenue Service warned today of a fraudulent scheme targeting non-resident aliens who have income from a United States source. The scheme uses fictitious IRS correspondence and an altered IRS form in an attempt to trick the foreign persons into disclosing their personal and financial data. The information fraudulently obtained is then used to steal the taxpayer's identity and financial assets.

This scheme has surfaced in South America, Europe and the Caribbean so far.

"This is an international variation of an old scheme where scam artists try to get valuable information by pretending to be from the IRS," said IRS Commissioner Mark W. Everson. "Taxpayers should be wary of strangers trying to obtain sensitive personal information, whether it's in person, over the phone, through the mail or over the Internet."

Generally, identity thieves use someone's personal data to steal his or her financial accounts, run up charges on the victim's existing credit cards, apply for new loans, credit cards, services or benefits in the victim's name and even file fraudulent tax returns.

In this particular scam, an altered IRS Form W-8BEN, "Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding," is sent with correspondence purportedly from the IRS to non-resident aliens who have invested in U.S. property, such as securities or bonds, and therefore have U.S.-sourced income. The correspondence claims that the recipient will be taxed at the maximum rate unless the requested personal and financial data is entered onto the form and the form is faxed to the phone number contained in the correspondence.

The correspondence's threat is baseless. In reality, the rate at which a non-resident alien pays tax to the U.S. depends on the terms of the tax treaty the U.S. has with the foreign person's country.

There are about 2.5 million non-resident aliens who receive U.S.-sourced income, based on the number of Forms 1042-S that were issued last year. The 1042-S is used to report the amount of U.S. income a non-resident alien earned in that year and the taxes that were withheld.

The phony W-8BEN form asks the recipient for detailed personal and financial information, such as:

- Date of birth
- Social Security number
- Passport number

- Bank name
- Account number, type and date opened
- E-mail address
- Profession
- Day-time phone number
- How often the recipient visits the U.S.
- Information on the recipient's spouse, children and parents

There is a legitimate IRS Form W-8BEN, which is used to establish the non-resident alien's foreign status and to determine whether the foreign person is subject to withholding of taxes. However, the genuine IRS Form W-8BEN does not ask for any of the personal information above, except, in some cases, for a Social Security or IRS-generated Taxpayer Identification Number.

In addition, genuine Forms W-8BEN are sent to the recipients by their financial institution, not by the IRS. The financial institution - whether bank, brokerage firm, insurance company or other - acts as the non-resident alien's withholding agent for any income subject to U.S. income tax that the foreign person received from a U.S. source. The W-8BEN is used by the financial institution to establish the appropriate tax withholding or to determine whether their customers meet the criteria for remaining exempt from tax reporting requirements.

The real Form W-8BEN can be found on the IRS's Web site at www.irs.gov in the "Forms and Publications" section.

The IRS has already advised financial institutions to alert their overseas branches to warn their customers about this scam.

The Treasury Inspector General for Tax Administration (TIGTA) investigates a wide variety of offenses, including identity theft related to tax administration. Non-resident aliens who have received a fraudulent letter and form should report this to TIGTA by calling the toll-free fraud referral hotline at 1-800-366-4484, faxing a complaint to 202-927-7018 or writing to the TIGTA Hotline, PO Box 589, Ben Franklin Station, Washington, DC 20044-0589. TIGTA's website is located at www.ustreas.gov/tigta.

INTEREST RATES DROP FOR THE THIRD QUARTER OF 2004

IR-2004-76, June 2, 2004

WASHINGTON - The Internal Revenue Service today announced that interest rates for the calendar quarter beginning July 1, 2004, will drop by one percentage point, returning to the levels held from last October through March of this year. The new rates will be:

- four (4) percent for overpayments [three (3) percent in the case of a corporation];
- four (4) percent for underpayments;
- six (6) percent for large corporate underpayments; and
- one and one-half (1.5) percent for the portion of a corporate overpayment exceeding \$10,000.

Under the Internal Revenue Code, the rate of interest is determined on a quarterly basis. For taxpayers other than corporations, the overpayment and underpayment rate is the federal short-term rate plus 3 percentage

points. Generally, in the case of a corporation, the underpayment rate is the federal short-term rate plus 3 percentage points and the overpayment rate is the federal short-term rate plus 2 percentage points. The rate for large corporate underpayments is the federal short-term rate plus 5 percentage points. The rate on the portion of a corporate overpayment of tax exceeding \$10,000 for a taxable period is the federal short-term rate plus one-half (0.5) of a percentage point.

The interest rates announced today are computed from the federal short-term rate based on daily compounding determined during April 2004. Rev. Rul. 2004-56, announcing the new rates of interest, is available on the IRS Web site, www.irs.gov.

ARIZONA INTEREST RATES FOR THE THIRD QUARTER OF 2004

Arizona's interest rate for the calendar quarter beginning July 1, 2004, is four (4) percent for both overpayments and underpayments.

E-FILE THROUGH OCTOBER 15, 2004

Income tax returns filed during the six-month extension period following the April 15, 2004 deadline can be e-filed. Both refund and balance due returns will be accepted through October 15, 2004. Please remember that your clients must have paid any taxes owed on or before April 15, 2004, to avoid penalties and interest. If your client owes additional taxes you can choose direct debit making sure that the debit date is the same as the file date. If any other date is entered the return will be rejected.

If you are not yet an approved Electronic Return Originator (ERO) and want to e-file your clients' tax returns, you must first enroll with the Internal Revenue Service. Once you have your Electronic Filer Identification Number (EFIN), you can e-file with the state of Arizona.



Arizona E-file
Seminar Topics

- ☉ Man alive - its 2005!
- ☉ Tech-Talk Teasers
- ☉ Need Credit? No Problem!
- ☉ We're MAD and we're not takin' it any more!
- ☉ Don't adjust your set... we're in control of the scan, man.

Sept 15 - 4:30 PM
Sept 16 - 2:00 PM
Booth 637

Only at Las Vegas Event

Your IRS Nationwide Tax
FORUM
2004

For Details and Registration
visit IRS.GOV

JULY WORKSHOPS

You may view a complete listing of workshops and register online at www.revenue.state.az.us

To find out which workshops qualify for CPE or for more information, please call 602-716-7810 or email

Community Outreach & Education at
seminars@revenue.state.az.us

All workshops cost \$15 per person.

Retail Workshops

This workshop is designed to help you understand the Retail Classification under the Transaction Privilege Tax that is imposed in our state.

Chandler—July 22, 1—4:30 pm, Hampton Inn, 7333 W Detroit

Chandler—July 28, 8:30 am – noon
Department of Revenue, 3191 N Washington

Peoria—July 20, 8:30 am—noon, Hampton Inn, 8408 W Paradise Ln.

Scottsdale—July 14, 8:30 am—noon, Comfort Inn, 7350 E Gold Dust

Show Low—July 14, 8:30 am—noon,
Northland Pioneer College, 1001 W Deuce of Clubs,
Symposium Room

Thatcher—July 13, 8:30 am—noon,
Eastern Arizona College, 615 N Stadium, Room 108

Tempe—July 8, 1—4:30 pm, Twin Palms Hotel, 225 E Apache

Tucson—July 9, 8:30 am—noon,
Arizona Gov't Office, 400 W Congress, Rm. 158

Tucson—July 28, 1—4:30 pm, Embassy Suites, 5335 E Broadway

CONSTRUCTION INDUSTRY WORKSHOPS

This workshop is designed to assist those in the construction industry understand the transaction privilege tax requirements.

Chandler—July 21, 1—4:30 pm, Hampton Inn, 7333 W Detroit

Chandler—July 29, 8:30 am – noon,
Department of Revenue, 3191 N Washington

Peoria—July 21, 1:30—5 pm, Hampton Inn, 8408 W Paradise Ln.

Scottsdale—July 15, 8:30 am—noon, Comfort Inn, 7350 E Gold Dust

Show Low—July 14, 1:30—5 pm,
Northland Pioneer College, 1001 W Deuce of Clubs,
Symposium Room

Thatcher—July 14, 8:30 am—noon, Eastern Arizona College, 615 N Stadium, Room 108

Tempe—July 7, 1—4:30 pm, Twin Palms Hotel, 225 E Apache

Tucson—July 7, 8:30 am—noon,
Arizona Gov't Office, 400 W Congress, Rm. 5

Tucson—July 27, 1—4:30 pm, Embassy Suites, 5335 E Broadway

MARK YOUR CALENDARS FOR DECEMBER!

TaxTalk 2004 will be one full day with the availability of nine (9) Continuing Professional Education (CPE) credits. The Community Outreach and Education section of the department and representatives from the IRS conduct this seminar annually to provide practitioners with tax updates on relevant tax issues.

Learn the latest on what may affect you and your clients. Topics include legislative updates, Community Property, E-File, and much more!

Dates and times will be announced shortly. For additional information, please contact Community Outreach and Education at 602-716-7810 or via email at seminars@revenue.state.az.us

Tax Preparer Sentenced

(Continued from page 1)

Hibbs. "It is an outrageous situation when a professional tax preparer uses others as unwitting accomplices for his personal financial gain."

This investigation was a combined effort between state, local, and federal law enforcement agencies involving the Arizona Department of Revenue, the

Phoenix Police Department, the Office of the Arizona Attorney General, and the Treasury Inspector General's Office for Tax Administration. "This action demonstrates our agencies' commitment to protect Arizona consumers against tax preparers who take advantage of vulnerable communities," said Arizona Attorney General Terry Goddard.

and take the regular depreciation expense on that property?

No. There is no provision for reporting Sec. 179 expense in a manner other than provided in ARS §§ 43-1021.28 and 43-1022.30.

Are S-corporations or their shareholders required to make an adjustment to add back the bonus depreciation allowed by the internal revenue code?

No. Neither S-corporations nor their shareholders required to make an adjustment to add back the bonus depreciation allowed by the internal revenue code.

S-corporations are taxable in Arizona only to the extent they are subject to federal tax. They are not subject to the additions and subtractions under ARS §§ 43-1121 and 43-1122.

The bonus depreciation deduction does not retain its character when it is passed through to the shareholder as part of distributive share income. Therefore, the shareholders would not be required to make an addition under ARS § 43- 1021.30.

Are S-corporations or their shareholders required to make an adjustment to add back the Sec. 179 expense allowed by the Jobs and Growth Tax Relief Reconciliation Act that is in excess of \$25,000?

S-corporations are not required to add back Sec. 179 expense in excess of \$25,000; they are taxable in Arizona only to the extent they are subject to federal tax. They are not subject to the additions and subtractions under ARS §§ 43-1121 and 43-1122.

S-corporation shareholders are required to add back Sec. 179 expense in excess of \$25,000. The Sec. 179 expense does retain its character when it is passed through to the shareholder. Therefore, the shareholders would be required to make adjustments under ARS §§ 43-1021.28 and 43-1022.30 to reflect the Arizona allowance of the Sec. 179 expense.

Is a an out-of-state partnership with no activity in Arizona or its Arizona resident partners required to make an adjustment to add back the bonus depreciation allowed under the internal revenue code?

No. The partnership does not have Arizona gross income and is not required to file an Arizona return and therefore, is not subject to the additions and subtractions under ARS §§ 43-1021 and 43-1022. The bonus depreciation deduction does not retain its character when it is passed through to the partner as part of distributive share income. Therefore, the Arizona resident partners would not be required to make an addition under ARS § 43-1021.30.

Is an out-of-state partnership with no activity in Arizona or its Arizona resident partners required to make an adjustment to add back the Sec. 179 expense allowed by the Jobs and Growth Tax Relief Reconciliation Act that is in excess of \$25,000?

The partnership does not have Arizona gross income and is not required to file an Arizona return and therefore, is not subject to the additions and subtractions under ARS §§ 43-1021 and 43-1022. The Sec. 179 expense passed through to the Arizona partners does retain its character when it is passed through to the partner. Therefore, the Arizona resident partners would be required to include that Sec. 179 expense when making adjustments under ARS §§ 43-1021.28 and 43-1022.30 to reflect the Arizona allowance of the Sec. 179 expense.

Does Arizona recognize changes to the federal law under the Military Family Tax Relief Act of 2003 and allow amended Arizona return to exclude that gain?

The statute of limitations is suspended to allow taxpayers to claim refunds resulting from retroactive conformity to the provisions of the Military Family Tax Relief Act of 2003. A taxpayer that was able to file an amended federal income tax return to exclude the gain on the sale of a home because of changes to federal law under the Military Family Tax Relief Act of 2003, may also file an amended Arizona return to exclude that gain. If the amended return is for taxable years 1997, 1998 or 1999, you have until November 10, 2004 to file that return. When filing an amended return under this provision, write "Military Family Tax Relief Act" in red at the top of Form 140X.



ONLINE SYSTEM UPDATE

Our transition to an integrated tax system has resulted in a transition to new numbering for our Transaction Privilege Tax (TPT), Use, and Withholding tax types. TPT and Use Tax numbers issued from our new system start with "2" as the first digit. The older numbers, starting with the County codes (07, 10, etc.) will continue to be used in filings for these tax types. . (If you wish to verify that a license is valid, please call (602)542-4576.)

Withholding tax filings must use the Federal Employer Identification Number (EIN). The new A1-QRT form does not have a box for the old, state-issued withholding number.

We want to announce a new feature on the www.AZTaxes.gov website. We added a payment history page to the user options menu (visible after login) that lists all payments made on the site. The history also provides information on the status of the payment, confirmation numbers and other payment details.

Use of the website continues to grow. As of June 18th, there were:

- Over 5,800 registered users
- Over 4,300 TPT returns
- Over 100 Withholding returns
- Over \$1 billion in electronic payments processed by the site. All EFT payments are processed through AZTaxes.gov in addition to payments made on the site.

Thanks to all of you who have used AZTaxes.
Your Door to DOR!